


BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2004-1-E - ORDER NO. 2004-172
OCTOBER 15, 2004

IN RE: Annual Review of Base Rates for Fuel Costs)	ORDER
of Carolina Power & Light Company, Inc.)	APPROVING BASE
d/b/a Progress Energy Carolinas, Inc.)	RATES FOR FUEL 
)	COSTS

On March 24, 2004, the Public Service Commission of South Carolina (“the Commission”) held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (“Progress” or “the Company”) to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 2003 and as amended by 2004 Acts 175). The review of this case is from January 2003 through December 2003.

At the public hearing, William F. Austin, Esquire, and Kendal Bowman, Esquire, represented Progress; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina (“the Consumer Advocate”); and F. David Butler, General Counsel, represented the Commission Staff. South Carolina Energy Users, an Intervenor, did not participate in the hearing. The record before the Commission consists of the testimony of Ronnie M. Coats, Barbara A. Coppola, and

Bruce P. Barkley on behalf of Progress; the testimony of Jacqueline R. Cherry and A. R. Watts on behalf of the Commission Staff; and five (5) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from January, 2003, through December, 2003, Progress' total burned fuel costs for its electric operations amounted to \$797,912,850. Hearing Exhibit No. 4, Audit Department Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for Progress' fossil, nuclear, and hydroelectric plants for January, 2003, through December, 2003. The fossil generation ranged from a high of 60% in August to a low of 44% in October. The nuclear generation ranged from a high of 55% in October to a low of 39% in August. The percentage of generation by hydro ranged from a high of 3% in March and April to a low of 1% in January, August, September, October, and November. Hearing Exhibit No. 5, Utilities Department Exhibit No. 3.

3. During the January, 2003, through December, 2003, period, coal suppliers delivered 11,301,522.37 tons of coal. The Commission Staff's audit of Progress' actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$48.06 per ton in October to \$54.62 per ton in November. Hearing Exhibit No. 4, Audit Exhibit A.

4. According to Progress' witness Ronnie M. Coats, the performance of Progress' nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

Progress' system average capacity factors –

Progress' data for PWRs	
January, 2003-December, 2003	97.0 %

Progress' data for BWRs	
January, 2003-December, 2003	99.9 %

National average capacity factors -

NERC data for PWRs	
5 year 1998-2002	86.4 %

NERC data for BWRs	
5 year 1998-2002	85.7 %

5. Staff collected and reviewed certain generation statistics of major Progress plants for the twelve months ending December 31, 2003. The nuclear fueled Harris plant had the lowest average fuel cost at 0.44 cents per kilowatt-hour. The highest amount of generation was 14,667,363 megawatt-hours produced at the coal fueled Roxboro Plant. Hearing Exhibit No. 5, Utilities Department Exhibit 4.

6. The Commission Staff conducted an extensive review and audit of Progress' fuel purchasing practices and procedures for the subject period. The Staff's

accounting witness, Jacqueline R. Cherry, testified that Progress' fuel costs, as adjusted by Staff, were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 4, Audit Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 2003 and as amended by 2004 Acts 175) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of Progress' fuel revenues and expenses for the review period ending March, 2004, including estimated fuel costs for the months of January, 2004, February, 2004, and March, 2004, and Staff's audit produces an under-recovery of \$6,025,469. Staff calculated an under-recovery of \$6,038,891 for the period of January, 2003, through December, 2003, to which Staff added the projected under-recovery of \$675,055 for the month of January, 2004, the projected over-recovery of \$484,488 for the month of February, 2004, and the projected over-recovery of \$203,989 for the month of March, 2004, to arrive at a

cumulative under-recovery of \$6,025,469 as of March, 2004. Testimony of Cherry, p. 4; Hearing Exhibit No. 4, Audit Exhibit G.

9. For the base rate fuel component for the period ending March, 2005, Staff calculated a factor of 1.519 cents per kilowatt-hour. This factor is necessary for Progress to recover virtually all of its anticipated and booked fuel expenses. In making its calculation, Staff utilized the projected sales and fuel costs for the twelve months ending March, 2005, and included the under-recovered balance of \$6,038,891 as of December, 2003. Testimony of Watts, pp. 2-3; Hearing Exhibit No. 5, Utilities Exhibit 10.

10. Progress' projected average fuel expense for the period of April, 2004, through March, 2005, was 1.520 cents per kilowatt-hour. Testimony of Barkley, p. 3. Barkley projects the eligible under-recovery to be \$6.0 million at March, 2004. Testimony of Barkley, p. 3.

11. Company witness Barkley proposed that the Commission continue the present fuel factor of 1.471 cents per kilowatt-hour for the next twelve-month period. Barkley testified that Progress proposes continuing with the present fuel factor because Progress has been in a dispute with Norfolk Southern Railroad over the appropriate rail charges for the transportation of coal to Progress' Roxboro and Mayo coal plants. According to witness Barkley, the Surface Transportation Board ("STB") ruled that the rates Norfolk Southern charged Progress for the time period of April 1, 2002, through January 21, 2004, were unreasonable. The STB prescribed the appropriate rates to be charged during that period and the rates to be charged prospectively through 2021. As a result of this action of the STB, Progress expects to receive a refund from Norfolk

Southern of approximately \$20 million, with the South Carolina portion of the refund expected to be approximately \$3 million. Both Norfolk Southern and Progress have asked for reconsideration of the STB's decision, and according to Barkley, errors in the STB's calculations of the appropriate rates could mean that Progress may have to return approximately \$5 million of the refund to Norfolk Southern. The alleged errors and return of \$5 million would result in the South Carolina portion of the refund being reduced to approximately \$2.3 million. Due to the expected refund which would be applied as a credit to Progress' projected fuel cost under-recovery and in the interest of rate stability, Barkley testified that Progress requests that the current fuel factor of 1.471 cents per kilowatt-hour be continued for the next twelve month period. Testimony of Barkley, pp. 3-4.

12. Using the currently projected sales and fuel cost data and the adjusted and projected under-recovery of \$6,038,891 through December, 2003, Staff projected the average fuel expense to be 1.519 cents per kilowatt-hour. The currently approved fuel factor is 1.471 cents per kilowatt-hour. Applying the currently approved fuel factor would produce an estimated under-recovery for the next period of \$3,431,698. Testimony of Watts from Hearing; Hearing Exhibit No. 5, Utilities Department Exhibit 10.

13. The nuclear units operated well during the period under review. All outages were reviewed by Staff (Hearing Exhibit No. 5, Utilities Department Exhibit 2A), and a determination was made by Staff as to the prudence of the outages. Staff determined that there were no Company actions which required Progress' customers to be

subject to incurring higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that Progress' nuclear units had achieved an actual capacity factor of 98.5 % for the review period. Testimony of Watts, p. 2.

14. According to Progress witness Coats, the Company's nuclear generation system achieved a net capacity factor of 98.5 %. Witness Coats also testified that excluding outage time associated with reasonable outages, such as refueling, raised the net capacity factor to approximately 104.4 %. Testimony of Coats, p. 6.

15. In February, 2004, the General Assembly amended S.C. Code Ann. Section 58-27-865 to allow for the recovery of "fuel costs related to purchased power." The Staff applied the amended statute to economic purchases along with the applicable avoided cost, resulting in Staff adjusting Purchased Power Costs by \$6,806,574 on a total system basis. Testimony of Cherry, p. 5; Hearing Exhibit 4, Audit Exhibit G, p. 3 of 3.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., § 58-27-865(B)(Supp. 2003 and as amended by 2004 Acts 175), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission “to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers.” “[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error.” Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

3. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility’s reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

4. Further, S.C. Code Ann. § 58-27-865 (F) provides that:

[t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the

unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

5. Based upon the record before us, the Commission finds and concludes that Progress' fuel purchasing practices for the period under review were prudent; that Progress' generating plants have been efficiently run during the review period; and that Staff's recommended adjustment to Purchased Power Costs on a total system basis are appropriate and are hereby adopted.

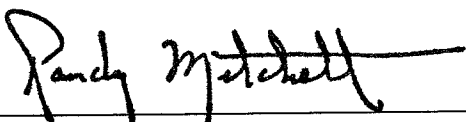
6. After considering the directives of §58-27-865 (B) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve-month period, the Commission determines that the appropriate base fuel factor for April, 2004, through March, 2005, will continue at 1.471 cents per kilowatt-hour. In the interest of rate stability and because the refund of transportation charges through the STB will reduce the projected under-recovery, the Commission concludes that it is appropriate not to increase the fuel charge at this time and to allow the current fuel factor of 1.471 cents per kilowatt-hour to continue through the next review period.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period April, 2004, through March, 2005, is set at 1.471 cents per kilowatt-hour.
2. Progress shall continue to file the monthly reports as previously required.
3. Progress shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.
4. Progress shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.
5. The Staff is instructed to monitor the cumulative recovery account.


6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Randy Mitchell, Chairman

ATTEST:



G. O'Neal Hamilton, Vice Chairman

(SEAL)